

Message Text

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47

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 IO-10

INT-05 GSA-01 FEAE-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 TAR-01 /129 W
----- 051510

P R 291600Z OCT 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 2173

INFO AMEMBASSY NEW DELHI

AMEMBASSY CANBERRA

AMEMBASSY CARACAS

AMEMBASSY FREETOWN

AMEMBASSY ALGIERS

AMEMBASSY SANTIAGO

AMEMBASSY STOCKHOLM

AMEMBASSY TUNIS

AMEMBASSY NOUAKCHOTT

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY N

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY PARIS

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USUN NEW YORK 428

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E.O. 11652: N/A

TAGS: EMIN, ENRG, BR

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SUBJECT: IRON ORE EXPORTING ASSOCIATION; PRODUCER/CONSUMER

DIALOGUE

REF: BRASILIA A-78

1. ON OCT 24 THE PRIVATE SECRETARY TO MINES AND ENERGY MINISTER UEKI REQUESTED AN EARLY APPOINTMENT WITH THE CHARGE TO HAND DELIVER A MESSAGE. AT THE APPOINTMENT, WHICH TOOK PLACE THE SAME DAY, THE PRIVATE SECRETARY DELIVERED A COPY OF A TELEX FROM UEKI TO THE MINISTER OF COMMERCE OF INDIA, PROFESSOR D.P. CHATTOPADHYAYA. TEXT FOLLOWS:

2. BEGIN TEXT. I WISH FIRST OF ALL TO THANK YOU FOR THE INVITATION TO TAKE PART IN THE FORTHCOMING MEETING OF THE ASSOCIATION OF IRON ORE EXPORTING COUNTRIES TO BE HELD IN LONDON ON 23 AND 24 OF OCTOBER. AS YOU KNOW FULL WELL THE WORLD ECONOMIC SITUATION IS A CAUSE OF DEEP CONCERN TO ALL OF US. THE WORLD RECESSION STRIKES MERCILESSLY NOT ONLY THE INDUSTRIALIZED COUNTRIES BUT ALSO - AND CHIEFLY - THE UNDER-DEVELOPED ONES. IF THE PROSPERITY OF THE INDUSTRIALIZED COUNTRIES DOES NOT ENTAIL AUTOMATIC BENEFITS FOR THE UNDER-DEVELOPED COUNTRIES, IT IS CERTAINLY TRUE THAT THEIR DIFFICULTIES HAVE A DIRECT REFLECTION ON OUR ECONOMIES.

3. MY COUNTRY IS SUFFERING THE CONSEQUENCES - BOTH DIRECT AND INDIRECT - OF THE OIL CRISIS. THE LAST INCREASE IN THE OIL PRICES HAS FURTHER WORSENED THIS SITUATION. THE BRAZILIAN GOVERNMENT IS THEREFORE OF THE OPINION THAT A POLICY MUST BE SOUGHT WHICH PROMOTES, BY ALL AVAILABLE MEANS, AN EFFECTIVE AND EQUITATIVE (PRESUMABLY "EQUITABLE") INTERNATIONAL COOPERATION. BRAZIL PUTS GREAT HOPE IN THE DIALOGUE THAT WILL TAKE PLACE DURING THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATIONS TO BE HELD IN PARIS NEXT DECEMBER.

4. WE EXPECT IT TO MAKE A VERY IMPORTANT CONTRIBUTION TO WHOLE QUESTION OF COMMODITY ARRANGEMENTS. THEREFORE WE CONSIDER IT PREMATURE TO EMBARK ON SPECIFIC SCHEMES FOR A GIVEN COMMODITY - SUCH AS IRON ORE - BEFORE A BROADER UNDERSTANDING IS REACHED AMONG COUNTRIES.

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5. THIS IS WHY, EXCELLENCY, WE HAVE THE DUTY OF COMMUNICATING TO YOU THAT BRAZIL SHALL NOT PARTICIPATE IN THE ASSOCIATION OF IRON ORE EXPORTING COUNTRIES UNDER THE PRESENT CIRCUMSTANCES. END TEXT.

6. COMMENT. (INCLUDES CONTRIBUTION BY MINOFF IN RIO.) THE GOB'S DECISION IS A VERY POSITIVE DEVELOPMENT FROM THE US STANDPOINT BECAUSE IT MAKES LESS LIKELY

(PERHAPS UNLIKELY) THE CREATION OF AN EXPORT -RESTRICTING IRON ORE AGREEMENT. ALTHOUGH THE DECISION REVERSES UEKI'S LAST PUBLIC POSITON (REF) THAT BRAZIL WOULD JOIN THE IRON ORE ASSOCIATION, IT WAS NOT FULLY UNEXPECTED BECAUSE FOR SOME TIME THE GOB HAS HAD QUALMS ABOUT JOINING. BRASIL'S BASIC OBJECTION TO THE ASSOCIATION IS SELF-INTEREST: BRAZIL SEEKS TO BECOME THE WORLD'S LARGEST IRON ORE PRODUCER AND THUS IT BELIEVES THAT JOINING AN EXPORT-RESTRICTING GROUP AT THIS TIME WOULD ONLY FRUSTRATE BRAZIL'S DRIVE TO EXPAND ITS SHARE OF THE WORLD MARKET. A SECOND FACTOR MAKING THE BRAZILIANS WARY IS CONCERN ABOUT THE PRESENT WEAKNESS OF AT LEAST PARTS OF THE WORLD IRON ORE MARKET. THIS YEAR BRAZIL'S LARGEST IRON ORE PRODUCER, CVRD, EXPECTS NO INCREASE IN EXPORTS, PRIMARILY BECAUSE OF WEAK JAPANESE DEMAND. THIRDLY, BRAZILIANS MAY ALSO BE CONCERNED THAT THE HUGE CARAJAS IRON ORE PROJECT MIGHT WELL NOT GET OFF THE GROUND IF BRAZIL WERE TO ACCEPT SIGNIFICANT EXPORT RESTRICTIONS THROUGH THE IRON ORE ASSOCIATION. IN SUM, BRAZIL'S DECISION DIRECTLY REFLECTS ITS OWN ECONOMIC INTERESTS AT THIS POINT. WE ARE NOT AWARE, HOWEVER, OF ANY BRAZILIAN PHILOSOPHICAL OBJECTION TO PRODUCERS GROUPS. HENCE, BRAZIL'S PERCEPTION OF ITS INTERESTS IN JOINING ANY IRON ORE GROUP MIGHT CHANGE IN THE MORE DISTANT FUTURE IF BRAZIL EXPANDS ITS SHARE OF THE MARKET AND DECIDES TO SEEK MEANS TO PROTECT IT.

7. A SIGNIFICANT FOREIGN POLICY IMPLICATION OF THE DECISION IS THAT IT RUNS COUNTER TO BRAZIL'S ENDEAVOR, THROUGH ITS RECENTLY MORE STRIDENT ESPOUSAL OF THIRD WORLD VIEWS, TO ENHANCE ITS STANDING IN THE THIRD WORLD. THE FIRST TEST OF THIRD WORLD REACTION MAY COME IN THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC), WHERE BRAZIL HAD HOPED TO PLAY A LEADING LDC ROLE,. (REGARDING UEKI'S LIMITED OFFICIAL USE

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EXPRESSED "HOPE" FOR THE CIEC DIALOGUE, WE SUSPECT THAT THE CIEC WAS A HANDY ALIBI, ALTHOUGH THE GOB MIGHT WELL HAVE CONFIDENCE IN THE OUTCOME OF THE PRODUCER/CONSUMER DIALOGUE.) THE GOB'S DECISION NOT TO JOIN THE IRON ORE ASSOCIATION MIGHT ALSO CAUSE DOUBT AMONG LDCA AS TO WHAT CONCEPTS REGARDING RAW MATERIALS PRICES AND PRODUCER ORGANIZATIONS FOREIGN MINISTER SILVEIRA HAD IN MIND IN HIS UN-7SS PROPOSAL FOR AN OVER-ARCHING WORLD GRADE AGREEMENT. JOHNSON

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